LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7143 **NOTE PREPARED:** Jan 24, 2003
BILL NUMBER: HB 1789 **BILL AMENDED:**

SUBJECT: Indiana Technology Talent Fund.

FIRST AUTHOR: Rep. Hasler **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **X** **GENERAL** **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill creates the State Technology Advancement and Retention (STAR) Account to advance technology and retain graduates in Indiana. The bill provides for a tax on the wholesale sale of tangible personal property to vending machine operators and uses the proceeds of the tax to fund STAR. Programs involved include School to Work Tax Credit, Internship Tax Credit, funding for the statewide partnership fund, technology grants, minority training grants, apprenticeship grants, back home in Indiana grants, and grants for the smart Indiana school smart partnership. The bill also makes an appropriation.

Effective Date: Upon passage; January 1, 2003 (retroactive); July 1, 2003; January 1, 2004.

Explanation of State Expenditures: *STAR Account and Spending of STAR Account Funds:* The bill establishes the State Technology Advancement and Retention (STAR) Account within the state General Fund. The STAR Account consists of Sales Tax revenue collected from vending machine items (see below under *Explanation of State Revenues*). The Account is administered by the State Budget Agency and money in the account does not revert to the state General Fund. Under the bill, the money in the STAR Account is annually appropriated in the following percentages:

(1) 35% to the Certified School to Career Program Payroll Credit.
(2) 10% to the Certified Internship Program Payroll Credit.
(3) 15% to the Indiana Economic Development Partnership Fund.
(4) 10% to Minority Training Program Grants.
(5) 15% to Technology Apprenticeship Grants.
(6) 10% to the Back Home in Indiana Program.
(7) 5% to the Indiana Schools Smart Partnership.

Certified School to Career Programs: The bill authorizes the Indiana Department of Commerce (IDOC), in consultation with the Department of Education (DOE), to certify school to career programs that provide job training, classroom instruction, and employment to secondary and postsecondary. These students must be 16 to 24 years of age, and participation in the school to career program must be a part of the students secondary or postsecondary school education. The bill allows the IDOC to impose an application fee on entities applying to sponsor a certified program. The fee is to be used by the IDOC to defray the costs of processing the application and investigating the applicant.

Certified Internship Programs: The bill authorizes the Department of Workforce Development (DWD), in consultation with the DOE, to certify internship programs operated by public and private institutions of higher learning for part-time and full-time students. A certified internship program must integrate curriculum with career internships, place students in career internships with employers providing supervision and payroll and personnel services the same as for regular part-time employees.

Indiana Economic Development Partnership Fund: This fund exists under current statute to provide grants for certain economic development initiatives. The bill expands certain purposes for grants from this fund. A non-code provision of the bill requires that during the 2003-05 biennium grants of $200,000 be made to the East Central Indiana Technology Transfer Program and the Southwestern Indiana Technology Transfer Program. The grants are to be used in establishing and operating technology talent programs.

Minority Training Program Grants: The State Human Resource Investment Council is required to develop a program to provide grants to minority training programs for minority students. The grants must be used for programs to enhance training in technology advancement for minority students

Back Home in Indiana Program: The State Human Resource Investment Council is required to develop a program to provide for grants or contracts to develop the Back Home in Indiana Program . The Program must track graduates of Indiana public and private colleges and universities; and periodically contact graduates regarding job opportunities in Indiana.

Technology Apprenticeship Grants: The bill requires the Department of Education (DOE), in consultation with the Department of Labor, to develop a grant program to provide grants for apprenticeships in the area of technology. The bill requires the agencies to develop standards for the issuance of grants to business and unions that are working to enhance the apprenticeship skills of apprentices.

Indiana Schools Smart Partnership: The DOE is required to establish guidelines for making grants to Indiana Schools Smart Partnership to create partnerships between schools and local businesses to make math and science relevant to students.

It is important to note that the bill allows expenses for administration of the STAR Account, and of programs funded from the STAR Account, to paid from the STAR Account. However, these payments may not exceed 2%.

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the new tax credits. This bill would also require the DOR to develop new reporting procedures for vending machine operators. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *Vending Machine Sales:* This bill creates a new Sales Tax on items purchased by vending machine operators for later sale through vending machines. (The bill does affect the sale of newspapers or cigarettes.) Under this bill, a portion of a vending machine operator's Sales Tax liability would be calculated by multiplying the *wholesale* price of a good sold by 120%. The product would then be multiplied by the state's 6% Sales Tax rate to determine this portion of the operator's liability. The additional Sales Tax revenue generated from this new tax on vending machine items would be deposited in the State Technology Advancement and Retention (STAR) Account (see above under *Explanation of State Expenditures*). The additional revenue generated as a result of this proposal is unknown. Although this provision becomes effective upon passage, developing the tax's administrative procedures and taxpayer's remittance of the tax collections are expected to delay the actual receipt of funds into the STAR account until approximately July 2003. Vending machine operators would be liable for remitting this wholesale Sales Tax and, unless the operator is exempt, the retail Sales Tax. The distribution of state Sales Tax revenue received from retail sales of vending machine items will not change under this proposal.

Background Information: Based on adjusted state and federal data, it is estimated that the Sales Tax applied to the retail price of goods sold through vending machines will generate a minimum of approximately $7.4 M in CY 2004. This Sales Tax estimate is presumed on the low range since a number of forms engaged in vending machine operations, such as gas stations and restaurant, report to the Department of State Revenue under business classifications that prevent the specific identification of vending machine sales.

Payroll Tax Credits: The Certified School to Career Program Payroll Credit is a nonrefundable credit equal to 20% of certain payroll expenditures of an employer to a participant in a *certified school to career program* (see above under *Explanation of State Expenditures*). For each participant, the credit is limited to the first 400 hours of payroll expenditures per year the participant is in the program for up to two year. The credit is effective for payroll expenditures beginning July 1, 2004.

The Certified Internship Program Payroll Credit is a refundable credit equal to 20% of the wages actually paid by an employer to a student participating in a *certified internship program* (see above under *Explanation of State Expenditures*). The taxpayer must employ at least one individual other than the student intern to qualify for the credit. The credit is effective beginning in tax year 2004.

The number of employers that may incur creditable payroll costs for student interns or participants in school to career programs is contingent upon a number of factors, including employer utilization, student interest, and current and future capacity of applicable organizations to operate certified programs. However, the bill limits the aggregate amount of each tax credit that may be provided to qualified employers each fiscal year. For each tax credit the limit is equal to the annual appropriation from the STAR Account to pay the cost of the credit (see above under Explanation of State Expenditures). Annually the DOR must approve applications for each tax credit in the chronological order in which the applications are filed until the maximum aggregate credit level is met. Subsequent applications would be disapproved for that fiscal year.

Each credit may be claimed by individual and corporate taxpayers against their Adjusted Gross Income (AGI) Tax, the Insurance Premiums Tax, and the Financial Institutions Tax liabilities. The Certified School to Career Program Payroll Credit is nonrefundable. In contrast, the Certified Internship Program Payroll Credit is refundable. For each credit, unused credits maybe carried forward to subsequent taxable years. Neither credit may be carried back. If an employer is a pass through entity and does not have a tax liability, the credits could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity.

<u>Explanation of Local Expenditures:</u>

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Department of Education; Department of Workforce Development; Indiana Department of Commerce; Department of Labor; State Human Resource Investment Council.

Local Agencies Affected:

Information Sources: U.S. Census Bureau, *1997 Economic Census*; Department of State Revenue

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